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I'ANCO

Annual Report 1967

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I'ANCO PRODUCTS

A-1 STEEL AND IRON FOUNDRY (VANCOUVER) LTD.

and its wholly-owned subsidiaries

A-1 STEEL AND IRON FOUNDRY LTD.

AND BIRD FOUNDRY (Non-Ferrous Division)

Incorporated under the Laws of the Province of British Columbia
Vancouver, B.C.

Financial Report 1967

CAPITAL

Authorized –	100,000 Class "A" Shares of No Par Value
	180,000 Class "B" Shares of No Par Value
Issued and Fully Paid –	76,000 Class "A" Shares
	159,000 Class "B" Shares

OFFICERS

Ernest Charles Warner, *Chairman of the Board*
John Pollock Stark, *President and Chief Executive Officer*
Charles Watters, *Vice-President and General Sales Manager*
Ian Alastair Shaw, *Secretary*
W. D. Miles Boyd, *Director and Sales Manager I'Anco Products*
Gordon A. Green, *Director*
Lovick P. Young, *Director and Foundry Manager*

BANKERS
BANK OF MONTREAL
Vancouver, B.C.

AUDITORS
Price Waterhouse & Co.
Vancouver, B.C., *Chartered Accountants*

TRANSFER AGENT AND REGISTRAR
The Royal Trust Company, Vancouver, B.C.

FISCAL AGENTS
LANSDOWNE SECURITIES LTD.

Chairman's report to the shareholders

I am very proud to be able to present a report to you for 1966-1967 that is most pleasing to read and is the result of very hard work and conscientious planning by your executive team headed by Mr. John Stark.

I am also pleased to report that your executive directors have taken up the full allotment to which they are entitled under their special options and have paid for them in full.

From a business point of view 1966-1967 has been one of the most tricky periods since the end of the war. In the midst of a great industrial boom we have had a chronic tight money situation. Some of our valuable customers had to cut back but our executive directors met this challenge by diversifying their activities so that we have maintained a three-shift basis for practically the entire year.

Another problem that has cost us much time is the unfortunate labor situation. It seems that when you have a large labor content in a business the unions or their leaders do not give the consideration they should to the development and profitability of their company. You can only be generous to your employees if your company is financially successful. I have always believed that the producers of wealth should have a fair share of the wealth they produce, but these last few years I have considered many union officials to be quite unreasonable. You must have increased productivity before you can have increased wages.

When I walk around our plant and see the enormous amount of work involved in the process of manufacture I feel the day is coming when we shall have to have a major expansion. When that time comes I hope the tight money era will be over because it is the crippler of many good businesses which need to expand with our expanding British Columbia.

Your company is very fortunate in having such an excellent team of executives. I am sure we can sit back and relax with a king-sized Player's cigarette and a glass of good wine in the knowledge that when better castings are made A-1 Steel and Iron Foundry will be the first to produce them.

E. C. WARNER,
Chairman of the Board.

Report of the President and Chief Executive Officer

In the accompanying financial statements for our fiscal year ending February 28th, 1967 sales are reported at $2,478,533 and include sales of Bird Foundry for 10 months. This compares with sales of $1,384,114 for our first year of operation ending February 29th, 1964; representing an increase of 79% over that year, and over a 100% increase for the year previous to our take-over. Compared with our report for the year ending February 28th, 1965 the increase in sales was 32%.

The growth of the company has therefore been maintained in a tighter economy, due mainly to planned diversification and the alertness of our sales staff.

We are constantly on the lookout for new products, and as many of these require high standards of quality and control as do our own I'Anco Products; much credit must be given to the staff who contribute so much towards the acceptance of that final product by industry in British Columbia, and in many other parts of the world.

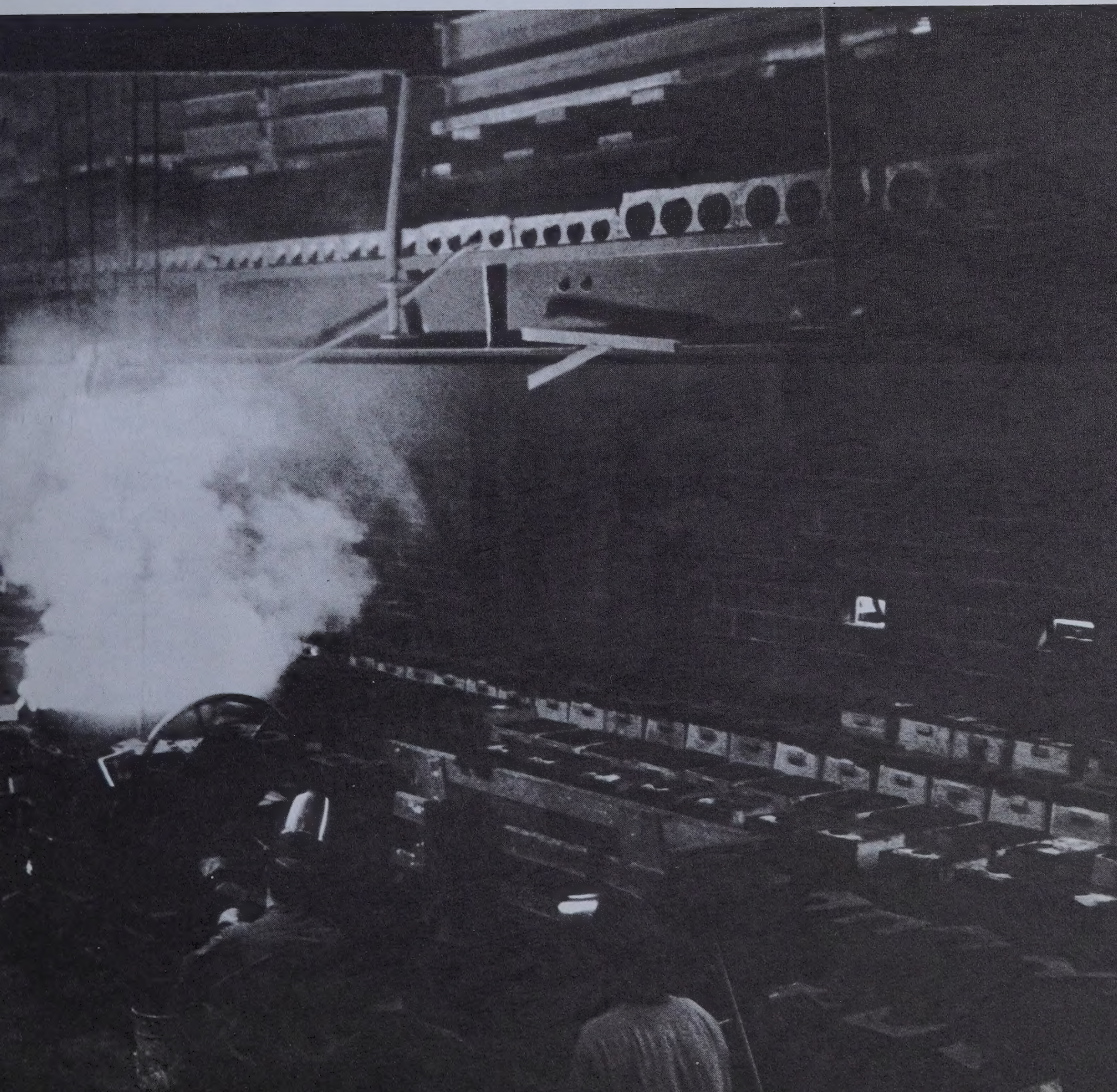
During the past two years we have been able to maintain our price structure because of new built-in efficiency. However, this coming year poses new problems; new labor contracts and higher prices for our supplies; and we will of necessity pass some of these increases on to our customers, so that a satisfactory profit picture will be maintained for our stockholders.

Several times during the year we were pushed to capacity, and if the present growth rate continues we will be required to re-assess our position and make plans for further expansion. This problem has been examined and studied for eventual correction, and when we are required to act a full report will be given to the stockholders.

In the meantime our operation and progress has been most satisfactory and I would thank once again, all of our staff, sincerely, for the splendid work they have done, and for the great contributions made by heads of departments, and officers of the company.

JOHN P. STARK,
President and Chief Executive Officer.

Over 3,000 pounds of molten steel ready to be poured into I'Anco castings.



A-1 STEEL AND IRON F

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Consolidated Balance Sh

(with comparable bala

ASSETS

	1967	1966
CURRENT ASSETS:		
Cash	$ 100	$ 30
Short term bank deposit	—	45,000
Accounts receivable, less allowance of $12,500 for doubtful accounts ($10,000 in 1966)	451,439	368,134
Inventories, at cost which is lower than market	458,405	277,841
Prepaid expenses and deposits	4,575	3,303
	914,519	694,308
SPECIAL REFUNDABLE TAX	6,936	—
INVESTMENT IN 50%-OWNED COMPANY:		
Bird Foundry Ltd. – shares, at cost (Note 1)	—	10
FIXED ASSETS, at cost:		
Plant buildings and equipment, and other depreciable assets	1,192,175	906,541
Less –		
Accumulated depreciation	251,837	128,147
	940,338	778,394
Land	83,853	56,353
	1,024,191	834,747
INCORPORATION AND PRELIMINARY EXPENSES, at cost	13,900	12,198
	$1,959,546	$1,541,263

APPROVED ON BEHALF OF THE BOARD:

John P. Stark, *Director.*

Charles Watters, *Director.*

NDRY (VANCOUVER) LTD.

Companies

as at February 28 1967

at February 28 1966)

LIABILITIES	1967	1966
CURRENT LIABILITIES:		
Bank loans and other indebtedness (in part secured)	$ 157,139	$ 46,548
Accounts payable and accrued liabilities	174,993	129,300
Dividend payable	11,400	9,000
Current portion of long term indebtedness (Note 2)	60,000	60,000
Income taxes payable (Note 3)	85,000	—
	488,532	244,848
LONG TERM INDEBTEDNESS (Note 2)	406,500	550,000
	895,032	794,848
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Notes 1 and 4):		
Authorized –		
100,000 Class "A" shares of no par value (redeemable at the option of the company for $12 per share)		
180,000 Class "B" shares of no par value		
Issued and fully paid –		
76,000 Class "A" shares (1966 – 60,000 shares)	692,000	564,000
159,000 Class "B" shares (1966 – 140,000 shares)	106,750	14,000
	798,750	578,000
RETAINED EARNINGS – per statement attached	265,764	168,415
	1,064,514	746,415
	$1,959,546	$1,541,263

Auditors' Report

To the Shareholders of
A-1 Steel and Iron Foundry (Vancouver) Ltd.:

We have examined the consolidated balance sheet of A-1 Steel and Iron Foundry (Vancouver) Ltd. as at February 28 1967 and the consolidated statements of earnings and retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies as at February 28 1967 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
May 18 1967.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

Over 50 tons of quality I'Anco castings ready for export all over the world.


SHIPPER
RECEIVER

A-1 STEEL AND IRON FOUNDRY (VANCOUVER) LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings and Retained Earnings for the year ended February 28 1967

(with a comparable statement for the preceding year)

	1967	1966
Sales	$2,478,533	$1,867,963
Cost of sales (Note 5)	1,887,012	1,430,234
Gross profit	591,521	437,729
Selling and administrative expenses (Note 5)	328,122	245,030
	263,399	192,699
Income taxes (Note 3)	85,000	(4,819)
Net earnings for the year	178,399	197,518
Retained earnings – beginning of year	168,415	6,897
	346,814	204,415
Deduct –		
Dividends declared –		
Class "A" shares – 60¢ per share	43,200	36,000
Class "B" shares – 25¢ per share	37,850	—
	81,050	36,000
Retained earnings – end of year	$ 265,764	$ 168,415

	1967	1966
Included in cost of sales and selling and administrative expenses above are the following charges (credits):		
Depreciation	$ 95,002	$ 69,376
Interest on borrowed funds	40,706	45,239
Profit on disposal of fixed assets (net)	—	(3,674)
	$ 135,708	$ 110,941

A-1 STEEL AND IRON FOUNDRY (VANCOUVER) LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Source and Application of Working Capital for the year ended February 28 1967

(with a comparable statement for the preceding year)

	1967	1966
Sources of working capital:		
Net earnings – per statement attached	$ 178,399	$ 197,518
Add –		
Depreciation – not involving an outlay of cash	95,002	69,376
	273,401	266,894
Working capital of subsidiary acquired during year (Note 1)	24,616	—
Proceeds from issue of shares in respect of stock options (Note 4(c))	12,750	—
Long term indebtedness	—	750,000
	310,767	1,016,894
Applications of working capital:		
Acquisition of investment in subsidiary company (Note 1)	208,218	—
Less –		
Financed by issue of Class "A" and Class "B" shares	208,000	—
	218	—
Payment of, and current provision for, long term indebtedness	143,500	200,000
Purchase of fixed assets	102,536	21,685
Dividends declared	81,050	36,000
Special refundable tax	6,936	—
	334,240	257,685
Increase (decrease) in working capital	(23,473)	759,209
Working capital – beginning of year	449,460	(309,749)
Working capital – end of year	$ 425,987	$ 449,460

**A-1 STEEL AND IRON FOUNDRY (VANCOUVER) LTD.
AND SUBSIDIARY COMPANIES**

Notes to the Consolidated Financial Statements as at February 28 1967

NOTE 1:

On May 5 1966 the company acquired for $208,218 the remaining 50% of the outstanding common shares and all of the outstanding preference shares of Bird Foundry Ltd. In payment thereof, the company issued 16,000 Class "A" shares and 16,000 Class "B" shares (representing stated considerations of $128,000 and $80,000 respectively) and paid $218 in cash.

NOTE 2:

The company's long-term indebtedness consists of the following:

	Bank loan	*7% Debentures*	*Total*
Original borrowing, less in the case of the bank loan $75,000 deposited in a cash collateral account	$500,000	$250,000	$750,000
Less –			
Repayments to February 28 1966	40,000	100,000	140,000
Repayments during the year	143,500	—	143,500
	183,500	100,000	283,500
	316,500	150,000	466,500
Less –			
Payments due within twelve months	60,000	—	60,000
	$256,500	$150,000	$406,500

The bank loan bears interest at 6% per annum and is secured by debenture, providing a mortgage on the fixed assets and a floating charge on all other assets of the companies. By arrangement with the bank, the loan is repayable by April 1 1970, and the bank has agreed to minimum repayments at the rate of $5,000 per month for the present.

The 7% debentures were due and payable September 1 1965; however, the holders thereof have signed a postponement agreement in connection with the bank loan referred to above subordinating all their rights under these debentures to the bank.

NOTE 3:

Income taxes otherwise payable for the year ended February 28 1967 have been reduced partly by applying against current earnings a loss for income tax purposes incurred in prior years and partly by claiming depreciation for income tax purposes in excess of that recorded in the accounts. The current reduction and the accumulated reductions to date resulting from claiming this excess depreciation amount to $12,076 and $161,468 respectively.

NOTE 4:

(a) At the discretion of the directors, the company's Class "A" shareholders shall be entitled, in any one year, to non-cumulative, preferential cash dividends of 60¢ per share. Any further dividends declared by the directors shall be paid firstly to the Class "B" shareholders to the extent of 60¢ per share per annum, and thereafter in equal amounts per share to the Class "A" and Class "B" shareholders.

(b) Any further issues of Class "A" or Class "B" shares must be accompanied by a concurrent issue in like number of shares of the other class, except that Class "B" shares may be issued in exercise of stock option agreements without any Class "A" shares being issued.

(c) As at February 28 1967, options for 12,000 Class "B" shares were outstanding. These options, exercisable in equal annual numbers at $4.25 per share to February 9 1971, were held by officers who are also directors of the company. Options for 3,000 Class "B" shares were exercised during the year ended February 28 1967 for a total cash consideration of $12,750.

NOTE 5:

The total remuneration paid during the year to five directors, representing their salaries as officers of the companies, aggregated $84,049 as compared with $55,608 in the previous year when three of the directors served in this capacity for only part of that year.